

**REPORT OF THE AUDIT OF THE  
ROWAN COUNTY  
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period  
May 1, 2007 Through April 30, 2008**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**ROWAN COUNTY**  
**SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period**  
**May 1, 2007 Through April 30, 2008**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2007 Taxes for Rowan County Sheriff for the period May 1, 2007 through April 30, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$7,242,328 for the districts for 2007 taxes, retaining commissions of \$297,308 to operate the Sheriff's office. The Sheriff distributed taxes of \$6,934,685 to the districts for 2007 taxes. Refunds of \$690 are due to the Sheriff from the taxing districts.

**Report Comment:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits as of December 12, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured    \$1,666,715

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Jim Nickell, Rowan County Judge/Executive  
Honorable Jack Carter, Rowan County Sheriff  
Members of the Rowan County Fiscal Court

Independent Auditor's Report

We have audited the Rowan County Sheriff's Settlement - 2007 Taxes for the period May 1, 2007 through April 30, 2008. This tax settlement is the responsibility of the Rowan County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Rowan County Sheriff's taxes charged, credited, and paid for the period May 1, 2007 through April 30, 2008, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Jim Nickell, Rowan County Judge/Executive  
Honorable Jack Carter, Rowan County Sheriff  
Members of the Rowan County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

September 26, 2008



ROWAN COUNTY  
JACK CARTER, SHERIFF  
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period May 1, 2007 Through April 30, 2008

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 488,818	\$ 717,710	\$ 3,848,476	\$ 962,119
Tangible Personal Property	54,251	138,767	328,992	278,297
Fire Protection	1,085			
Increases Through Exonerations	308	461	2,394	1,217
Franchise Taxes	50,593	89,196	313,602	
Additional Billings	1,045	1,493	7,838	2,120
Clay Reserves	44	65	351	88
Bank Franchises	78,375			
Penalties	5,771	8,537	44,946	11,589
Adjusted to Sheriff's Receipt	(5)	18	4	(3)
Gross Chargeable to Sheriff	680,285	956,247	4,546,603	1,255,427
<u>Credits</u>				
Exonerations	4,163	5,359	30,224	6,616
Discounts	9,882	13,311	63,722	19,257
Delinquents:				
Real Estate	2,979	4,338	23,263	5,816
Tangible Personal Property	513	1,001	3,183	2,607
Total Credits	17,537	24,009	120,392	34,296
Taxes Collected	662,748	932,238	4,426,211	1,221,131
Less: Commissions *	28,454	39,620	177,048	52,186
Taxes Due	634,294	892,618	4,249,163	1,168,945
Taxes Paid	633,242	891,186	4,242,569	1,167,688
Refunds (Current and Prior Year)	1,062	1,567	6,977	1,419
Refunds Due Sheriff		**		
as of Completion of Audit	\$ (10)	\$ (135)	\$ (383)	\$ (162)

\*And \*\* See Next Page

The accompanying notes are an integral part of this financial statement.

ROWAN COUNTY  
JACK CARTER, SHERIFF  
SHERIFF'S SETTLEMENT - 2007 TAXES  
For The Period May 1, 2007 Through April 30, 2008  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	2,806,117
4% on	\$	4,426,211

\*\* Special Taxing Districts:

Library District	\$	(127)
Health District		<u>(8)</u>
(Refunds Due Sheriff)	\$	<u><u>(135)</u></u>

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENT

April 30, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

ROWAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 30, 2008  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 12, 2007, \$1,666,715 of public funds were exposed to custodial credit risk because the bank did not pledge adequate securities in accordance with the security agreement.

- Uninsured and Unsecured           \$1,666,715

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 31, 2007 through April 30, 2008.

Note 4. Interest Income

The Rowan County Sheriff earned \$2,869 as interest income on 2007 taxes. As of September 26, 2008, the Sheriff owed \$34 in interest to the school district and \$1,186 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Rowan County Sheriff collected \$61,980 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Rowan County Sheriff collected \$4,928 of advertising costs and fees allowed by KRS 424.330(1) and KRS 134.440(2). The advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Nickell, Rowan County Judge/Executive  
Honorable Jack Carter, Rowan County Sheriff  
Members of the Rowan County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Rowan County Sheriff's Settlement - 2007 Taxes for the period May 1, 2007 through April 30, 2008, and have issued our report thereon dated September 26, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rowan County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Rowan County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rowan County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Rowan County Sheriff's Settlement – 2007 Taxes for the period May 1, 2007 through April 30, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Rowan County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Rowan County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

September 26, 2008



COMMENT AND RECOMMENDATION



ROWAN COUNTY  
JACK CARTER, SHERIFF  
COMMENT AND RECOMMENDATION

For The Period May 1, 2007 Through April 30, 2008

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Office Manager records transactions, prepares deposits, reconciles the bank account and often collects receipts. Good internal controls dictate that the same person should not perform these functions. There may be no way to fully eliminate this control deficiency due to budgetary concerns that limit the number of employees that the Sheriff can hire. The Sheriff could, however, implement some compensating controls such as having another office employee or himself perform some reviews of these duties. Further, the Sheriff or the other employee would need to document the review of monthly reports and bank reconciliations and the periodic recounting and depositing of cash. This could be done by initialing the documents. We recommend the Sheriff develop compensating internal controls to offset this deficiency.

*Sheriff's Response:*

*We are working on this.*

